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More restriction likely on the way

A conspiracy theorist might conclude that the Federal Reserve somehow got the Personal Consumption Expenditures Index (PCE) data early enough to affect their Summary of Economic Projections (SEP). In that document from the last Federal Open Market Committee (FOMC) meeting in mid-June, members raised their estimate of at what level core PCE (which strips out volatile energy and food prices) would be at the end of this year from 3.6% to 3.9%.

That alteration suggests they think core PCE will decline even slower, which was the case in May. The Bureau of Labor Statistics reported Friday that core decreased in May, but only barely, from 4.7% to 4.6%. While it is true that headline PCE plummeted from April's 4.4% to 3.8%, core has more credence with the Fed. That backs up what Fed Chair Jerome Powell said at the European Central Bank's annual symposium in Portugal last week: "We believe there's more restriction coming." Combined with his hawkish language in the press conference at the June FOMC meeting, it is all but a lock we will see a 25 basis-point hike in the meeting in a few weeks.

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